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REPORT OF THE

STANDING COMMITTEE ON THE

ALBERTA HERITAGE SAVINGS

TRUST FUND ACT

July 1989

LEGISLATIVE ASSEMBLY OF ALBERTA

89-05685/

LEGISLATIVE ASSEMBLY
ALBERTA

July 1989

To the Honourable Dr. David J. Carter
Speaker of the Legislative Assembly
of the Province of Alberta

The Standing Committee on the Alberta Heritage Savings Trust Fund Act has the honour to submit the following report relating to the 1987-88 fiscal year for consideration by the Legislative Assembly. The recommendations were written and adopted by the 1988-89 Committee, chaired by Mr. John Oldring, which was dissolved with the 21st Legislature.

J. W. Ady

Jack Ady, M.L.A.
Chairman
Standing Committee on the Alberta
Heritage Savings Trust Fund Act

MEMBERS OF THE

STANDING COMMITTEE ON THE

ALBERTA HERITAGE SAVINGS TRUST FUND ACT

1988/89

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MLA, Red Deer South (PC)
Chairman

Alan HYLAND,
MLA, Cypress-Redcliff (PC)
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MLA, Innisfail (PC)

Ray SPEAKER,
MLA, Little Bow (Rep)

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I. INTRODUCTION

This report of the Standing Committee on the Alberta Heritage Savings Trust Fund Act contains the consensus of the members of the Standing Committee. It must be noted that the democratic principle of decision making was followed throughout the Committee's proceedings, and that all the recommendations contained herein were voted on. These votes are recorded in the minutes of the Standing Committee, which are on file in the Legislature Library where they may be read by any member of the public.

As all the proceedings of the Standing Committee were and are open to the public, this report contains only a brief summary of the highlights of the Committee's meetings. All meetings were recorded by Alberta Hansard, and transcripts are available in the Legislature Library. Any person wishing more detail should refer to the transcripts, which number 228 pages in length and are organized according to subject heading. The minutes are organized in similar fashion.

II. ALBERTA HERITAGE SAVINGS TRUST FUND ACT

On May 19, 1976, the Alberta Heritage Savings Trust Fund was established by an Act of the Legislative Assembly of Alberta. The reasons for and purposes of the Heritage Fund were set out in the preamble to the Alberta Heritage Savings Trust Fund Act:

> WHEREAS substantial revenue is being received by the Government from the sale of non-renewable resources owned by the people of Alberta; and
>
> WHEREAS there is a limited supply of non-renewable resources and therefore revenue from the sale of those resources will ultimately be reduced; and
>
> WHEREAS it would be improvident to spend all that revenue as it is received; and
>
> WHEREAS the Legislature of Alberta considers it appropriate that a substantial portion of that revenue be set aside and invested for the benefit of the people of Alberta in future years:
>
> THEREFORE HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

The Act, and subsequent amendments to it, set out the sources of funds and how these funds may be invested. Five distinct investment divisions of the Heritage Fund are defined, each with different aims and investment criteria. The Act also outlines the powers of the Heritage Savings Trust Fund Investment Committee and the Provincial Treasurer to make investments under each division. The Investment Committee consists of all members of the Executive Council.

It is the responsibility of the Provincial Treasurer, as soon as practicable after the end of each fiscal year, to prepare a report summarizing the operation of the Heritage Fund during the preceding fiscal year and containing a financial statement, audited by the Auditor General, showing:

1. transfers of cash and other assets to the Heritage Fund during the preceding fiscal year,

2. payments from and income to the Heritage Fund for the preceding fiscal year, and

3. total moneys expended under Acts of the Legislature referred to in respect of investments in the Capital Projects Division of the Heritage Fund.

When the report is completed, the Provincial Treasurer makes copies available to all Members of the Legislative Assembly and to the Clerk of the Legislative Assembly. The report is thus made public. The Alberta Heritage Savings Trust Fund 1987-88 Annual Report was made public on October 17, 1988.

III. ROLE OF THE STANDING COMMITTEE ON THE ALBERTA HERITAGE SAVINGS TRUST FUND ACT

The Act provides for the establishment of a Standing Committee of the Legislative Assembly, called the Standing Committee on the Alberta Heritage Savings Trust Fund Act. The Standing Committee is made up of Members of the Legislative Assembly who are appointed at the commencement of each Session.

When the annual report of the Heritage Fund is made public, it is deemed to be referred to the Standing Committee for review and subsequent report to the Legislative Assembly concerning the investments of the Heritage Fund. The report may contain any recommendations of the Standing Committee concerning those investments or proposed alternative investments.

Between September 28, 1988, and October 21, 1988, the Standing Committee met with Ministers of the departments directly involved in Heritage Fund investments during the preceding fiscal year, and with the Premier and the Auditor General as well. The Standing Committee also met between November 2, 1988, and February 15, 1989, to discuss the recommendations it would approve. At the conclusion of these meetings this report was written, to be tabled in the Legislative Assembly as required by the Alberta Heritage Savings Trust Fund Act.

The Standing Committee has made every attempt to fulfill its duties as required by the Standing Orders of the Legislative Assembly of Alberta.

IV. AMENDMENTS TO THE ALBERTA HERITAGE SAVINGS TRUST FUND ACT

From 1976 to 1982-83, the Heritage Fund derived its funds from two sources:

1. an annual transfer of 30 percent of the Province's non-renewable resource revenues, and

2. the retention of its investment earnings.

The transfer of resource revenues requires annual authorization by the Legislature through the passage of a special appropriation Act.

In March, 1983, two significant amendments were made to the Alberta Heritage Savings Trust Fund Act. The first amendment broadened the transfer provisions to allow the proportion of non-renewable resource revenue to be specified in the annual special appropriation Act. Previously, these Acts had to provide for 30 percent of such revenues to be transferred. During the 1983 spring sittings, the Legislative Assembly passed a special Act authorizing the transfer to the Heritage Fund of 15 percent of the non-renewable resource revenue received by the Province in 1983-84.

The second amendment allocated the Heritage Fund's net investment income to the General Revenue Fund for a two-year period beginning September 1, 1982.

The Act was further amended in 1984 to continue the transfer of its net investment income.

Effective April 1, 1987, the non-renewable resource revenue transfer was suspended, as part of the Government's medium-term strategy to reduce the budgetary deficit to zero by 1990-91.

V. REVIEW OF INVESTMENTS, APPEARANCE OF THE PREMIER, PROVINCIAL TREASURER, SELECTED MINISTERS, THE AUDITOR GENERAL AND OTHERS

This section of the report contains a brief review of the meetings held by the Standing Committee with the Premier, Provincial Treasurer, selected Ministers, the Auditor General and representatives from the Alberta Heritage Foundation for Medical Research.

The review follows the chronological order of appearance of these witnesses before the Standing Committee from September 28, 1988 to October 21, 1988.

Tour of Irrigation Districts - September 7 - 9, 1988

On Wednesday, Thursday and Friday, September 7 - 9, 1988, the members toured irrigation districts in southern Alberta and met a number of individuals involved in the management of the districts.

Tarsands Tour - September 12 - 13, 1988

On Monday and Tuesday, September 12 and 13, 1988, members toured the Tarsands in the Fort McMurray region.

Tour of Kananaskis Country - September 20 - 21, 1988

On Tuesday and Wednesday, September 20 and 21, 1988, Committee Members visited Kananaskis Country.

Minister of Recreation and Parks - September 28, 1988

Hon. Norm Weiss, Minister of Recreation and Parks, appeared before the Standing Committee on September 28, 1988. With Hon. Mr. Weiss were Mr. Fred Stewart, M.L.A.; Mr. Kyle Clifford, Supervisor, Facilities Maintenance, Recreation Development Division; Mr. Ed Marshall, Managing Director, Kananaskis Country; Dr. Barry Mitchelson, Deputy Minister of Recreation and Parks; Mr. Tony Myers, Manager, Public Communications; Mrs. Margaret Qually, Director of Public Affairs, Kananaskis Country; Ms. Carole Shields, Executive Assistant to the Minister of Recreation and Parks; Mr. John Weins, Manager, Financial Planning Division; and Mr. Fred Wilston, Recreation Development Division.

The Department of Recreation and Parks is responsible for Kananaskis Country Recreation Development, the Municipal Recreation/Tourism Areas (MRTA), Urban Parks, Capital City Recreation Park and Fish Creek Provincial Park.

Kananaskis Country, a 4,100 square kilometre development project, celebrated its tenth anniversary in 1988. Kananaskis Country has more than 3,000 automobile-accessible campsites on 29 campgrounds, 12 group campgrounds and more than 75 picnic areas. There is a 36-hole world-class golf course, extensive hiking trails, and cross-country ski runs. Other activities in the area include bicycling, mountain biking, snowmobiling, off-road vehicle use, horseback riding and interpretive trails and exhibits. To date, some $225 million in Heritage Fund money has contributed to the project. The spending phase of the project is winding down, with $3 million invested in 1987/88.

In Kananaskis Country, William Watson Lodge offers overnight accommodation for senior citizens and handicapped persons to a capacity of 108 persons, and ran at an average of 95 percent capacity throughout the 1987/88 year.

The MRTA program, announced during 1986/87, provides assistance to municipalities in the development, upgrading and operation of outdoor recreation facilities as a means of creating new recreation and tourism opportunities for Albertans. Capital grants are provided to develop or upgrade outdoor recreation facilities such as campsites, picnic areas, boat launches and docks, beaches, park developments and other outdoor recreation facilities. In 1987/88 some $2 million was invested in 27 projects. The program has now funded a total of 51 projects for a Heritage Fund total investment of $5 million.

Following an audio visual presentation dealing with Kananaskis Country and the MRTA program, the Minister gave a brief update on the current status of those programs.

Standing Committee members asked questions of Hon. Mr. Weiss on the following subjects: effect of the success of Kananaskis Country on its natural state; completion and future development of Kananaskis Country; traffic statistics on Kananaskis Country; golf course fees and choice of white sand; funds for Kananaskis administration services; improvement on Powderface Trail; turnaway numbers at William Watson Lodge; MRTA program and its implications on the Heritage Fund; rural demand for outdoor recreation facilities; rural perception of the MRTA program as a one-shot deal; stacking of programs in MRTA program; decentralizing the decision-making process in MRTA program; expanding urban parks program to smaller communities; development of northern Alberta parks; and projected impact of urban programs on Minister's budget.

Minister of Advanced Education - September 29, 1988

Hon. David Russell, Minister of Advanced Education, appeared before the Standing Committee on Thursday, September 29th, 1988. Attending with the Minister were Ms. G. Lynne Duncan, Deputy Minister of Advanced Education and Mr. Leon Lubin, Director of the Heritage Scholarship Fund.

The Minister of Advanced Education is responsible for three projects in the Capital Projects Division of the AHSTF. They are: the Alberta Heritage Scholarship Fund, the Heritage Learning Resources Program; and the Library Development Program. The Heritage Learning Resource Program and the Library Development Program were completed several years ago and no new funds have been added recently.

Hon. Mr. Russell briefly commented on the Heritage Scholarship Fund, and said that in two to three weeks a cheque marking the $60 million award total since the establishment of the fund

would be issued. The Alberta Heritage Scholarship Fund was established in 1981-82. Investment at March 31, 1988 was $100 million.

Standing Committee members raised questions on a variety of subjects including: library development in public colleges and universities; adjusting scholarship awards to keep up with inflation; forgivable student loans and the fairness of scholarships being considered as income; goals, values and the decision making process used in Heritage Scholarship Fund program; demand for scholarships; need to include an estimate of value of the Fund in Heritage Trust Fund's annual report; net value of the Fund and portion invested in common stocks; linking scholarships to shortages in specialty areas; medallion for recipients of Louise McKinney scholarship; relationship between scholarship fund and lotteries fund; and success of Heritage Learning Resources Program.

Minister of Forestry, Lands and Wildlife - September 29, 1988

On Thursday, September 29, 1989, Hon. LeRoy Fjordbotten, Minister of Forestry, Lands and Wildlife, appeared before the Standing Committee.

The Minister is responsible for three programs under the AHSTF, namely Grazing Reserves Development, Maintaining Our Forests, and the Alberta Reforestation Nursery.

The Minister spoke briefly on his Department's successful grazing lands range-improvement program created in 1976 and funded by the Heritage Fund. The 10-year, $39 million program provided assistance to ranchers to enhance grazing capacity in response to urgent requests.

Hon. Mr. Fjordbotten also discussed the Grazing Reserve Development program which is a two-pronged program. The first component is funded by General Revenue and provides for the annual operation of 32 grazing reserves. It also funds new developments and pasture maintenance on the 20 grazing reserves developed prior to the Heritage Fund program. The second component involves the development of 12 grazing reserves as well as the Cooking Lake Blackfoot grazing wildlife and recreation area. Hon. Mr. Fjordbotten asked the Standing Committee to consider renewing the program. Investment in 1987/88 was $3 million.

Standing Committee members questioned the Minister on the following subjects: grazing reserve capital investment on Alberta Indian reserves; success of reforestation programs; grazing lease conversion policy and grazing reserve program; recommendations favoring a forest advisory council with independent membership; the Canada/Alberta Forestry Agreement; federal funding under the Federal/Provincial Forest Resource Development Grants relative to other provinces; and the environmental impact of logging on wildlife habitat.

Minister of Technology, Research and Telecommunications - October 3, 1988

Hon. Les Young, Minister of Technology, Research and Telecommunications, appeared before the Standing Committee on Monday, October 3, 1988.

The three AHSTF projects administered by the Department of Technology Research and Telecommunications are the Electronics Test Centre, the Microchip Design and Fabrication Facility and the Universal Rural Private Telephone Line Service.

The Electronics Test Centre is the only facility in Western Canada providing testing and certification for electronic products, as well as evaluation and research support for manufacturers. Investment at March 31, 1988 was $6 million.

The Microchip Design and Fabrication Facilities conducts state-of-the-art microchip design and fabrication. Investment at March 31, 1988 was $8 million.

In 1987/88 some 9,000 rural telephone party line subscribers were converted to individual line service through Universal Rural Private Telephone Line Service (or ILS - individual line service) program. Investment in 1987/88 was $18 million.

In his opening remarks, the Minister provided a brief update on the ILS program, noting that the project was 20 percent complete.

The members of the Standing Committee questioned the Minister on the following subjects: expenditures on the ILS program; completion date for the ILS; criteria for deciding order for conversion to ILS; debentures redeemed by the Alberta Government Telephones Commission; funding of the Alberta Research Council; and operations of the Electronics Test Centre.

Minister of Health - October 3, 1988

Hon. Nancy Betkowski appeared before the Standing Committee on October 3, 1988. She was accompanied by Mr. Rheal LeBlanc, Deputy Minister of Health.

Hon. Mrs. Betkowski's opening statement dealt with current status of the Walter C. Mackenzie Health Sciences Centre and applied cancer research.

The Minister is responsible for the Applied Cancer Research Program, the Walter C. Mackenzie Health Sciences Centre, the Alberta Children's Provincial Hospital; Applied Heart Disease Research, Tom Baker Cancer Centre and Special Service Facility; and, the Alberta Heritage Foundation for Medical Research Endowment Fund.

In 1987/88, $2 million was spent on the Walter C. MacKenzie Health Sciences Centre, and the Minister reported that the project was nearing completion.

With regard to the Applied Cancer Research Program, 22 requests were approved for funding in 1987/88 at a cost of $2 million. Total project expenditures to March 31, 1988 were $36 million. The current program approves $2.8 million annually and expires March 31, 1990.

The members of the Standing Committee questioned the Minister on the following subjects: parking at the Walter C. Mackenzie Health Sciences Centre; study to identify geographical areas with higher incidence of cancer cases; status of outreach program at Cross Cancer Clinic; use of children's hospital in Calgary and demand for another children's medical facility; federal vs. provincial jurisdiction of cancer research; role of extended care facilities in the integration of long-term, auxiliary, nursing and active care; study on nursing and auxiliary care costs for long-term patients; funding to upgrade ambulance system; and priority of home care for senior citizens.

Associate Minister of Agriculture - October 4, 1988

Hon. Shirley Cripps, Associate Minister of Agriculture, appeared before the Committee on Tuesday, October 4, 1988. Also present were: Mr. Dave Schurman, Vice-President of Administration and Ms. Doris Armitage, Executive Assistant to the Minister.

The Associate Minister of Agriculture is responsible for the Agricultural Development Corporation (ADC) which is funded through the Alberta Investment Division of the AHSTF. The Corporation provides loans, loan guarantees and financial counselling to farmers and agribusinesses. In 1987/88 the Corporation made 487 loan commitments totalling $45 million under the Beginning Farmer Program and $2 million in loans to help established farmers expand and improve their productivity. The ADC also provided $71 in loan guarantees to Alberta farmers and agribusinesses.

Standing Committee members asked questions of Hon. Mrs. Cripps on the following subjects: ADC administration costs; size of ADC staff; appointment of chairman of ADC; number of quarter sections signed over to ADC through quitclaims and foreclosures and average price obtained when sold; costs related to foreclosures; procedures for buy-backs of ADC properties; effects of drought on farmers' ability to repay loans; success of index deferral plan; possibility of ADC vendor financing program and/or equity financing; ADC policy regarding property purchased from third party buyers by the original owners; result of Options and Opportunities recommendations; counselling for farmers in financial difficulty; and effects of free trade on marketing of agricultural products in the U.S.

Minister of Economic Development and Trade - October 5, 1988

Hon. Larry Shaben, Minister of Economic Development and Trade, appeared before the Standing Committee on Wednesday, October 5, 1988. With the Minister were Mr. Clarence Roth, Deputy Minister of Economic Development and Trade and Mr. Roy Parker, President of the Alberta Opportunity Company.

Hon. Mr. Shaben briefly mentioned the Heritage Fund investments he was responsible for, being rail hopper cars, Vencap Equities Alberta Ltd., Alberta Opportunity Co. (AOC), Millar Western Industries Ltd., Prince Rupert grain terminal and the small business term assistance program.

Standing Committee members raised a variety of topics which included: founding principles of the AOC; companies eligible to borrow from the AOC; reduction in funds required by the AOC; average number of losses of the AOC; involvement of AOC in Community Futures Program; access of small businesses to conventional lending sources; technology used by Millar Western pulp mill; maintenance and repair of railway hopper cars; interest rate charged to grain companies; ability of Prince Rupert Grain to meet its payments; rate of return provided by investment in Vencap; and the possibility of placing a government representative on Vencap board of directors.

Tour of Pine Ridge Forest Nursery - October 6, 1988

On Thursday, October 6, 1988, Standing Committee members toured the Pine Ridge Forest Nursery near Smoky Lake, northeast of Edmonton.

Minister of Agriculture - October 12, 1988

Hon Peter Elzinga, Minister of Agriculture, appeared before the Committee on Wednesday, October 12, 1988. With the Minister were: Mr. Ben McEwan, Deputy Minister of Agriculture; Mr. Gary Hartman, Manager, Irrigation Secretariat; and Dr. Yilma Teklemariam, Research Co-ordinator, Research Division.

The Minister is responsible for three programs under the Capital Programs Division of the AHSTF. These are the Irrigation Rehabilitation and Expansion Program, Farming for the Future and the Food Processing Development Centre.

The Farming for the Future program brings together individuals from the private sector, the academic community and both levels of government to offer suggestions as to where agricultural funding should be spent, the Minister said. Investment in 1987/88 was $5 million.

The Irrigation Rehabilitation and Expansion Program was initiated in 1969 and has been funded through the Heritage Fund since 1976. Investment in 1987/88 was $25 million.

The Food Processing Development Centre supports Alberta's expanding food processing and food service industry by applying new technology to private sector requests for assistance in developing new processes and processed products as well as providing assistance through to semi-commercial production. Investment at March 31, 1988 was $9 million.

Hon. Mr. Elzinga, in his opening remarks, gave a brief statement on the Farming For the Future program and the irrigation rehabilitation and expansion program.

Standing Committee members questioned the Minister on the following matters: costs of irrigation rehabilitation and expansion program; projected completion date for all irrigation districts; number of on-farm demonstrations conducted by Farming for the Future; Leduc Food Processing Development Centre projects and operations; effect of Heritage Fund assistance on potential aid from the federal government; federal-provincial irrigation agreements; private vs. in-house contracting for upgrading irrigation districts; technology for canal linings; diversification of irrigation crop opportunities; and quality of construction and materials used in upgrading irrigation districts.

Minister of the Environment and Minister Responsible for Occupational Health and Safety - October 17, 1988

Hon. Dr. Ian Reid, Minister of the Environment and Minister Responsible for Occupational Health and Safety appeared before the Committee on October 17, 1988. The Minister was joined by Mr. Vance MacNichol, Deputy Minister of the Environment; Mr. Peter Melnychuk, Assistant Deputy Minister, Water Management Services; Mr. Bill Simon, Assistant Deputy Minister, Finance and Administration Services; Mr. Jake Theissen, Director, Oldman River Dam; Ms. Hilary Lynas, Director, Grant Administration, Occupational Health and Safety Heritage Grant Program; and Mr. John Szumlas, Executive Assistant to the Minister.

In his opening remarks, the Minister discussed the AHSTF programs he is responsible for, namely the Occupational Health and Safety Heritage Grant Program, the Irrigation Headworks and Main Irrigation Improvement Program and the Land Reclamation Project.

The Occupational Health and Safety Heritage Grant Program aims to minimize accidents and avoid industrial or occupational disease. Investment in 1987/88 was $1 million.

The Irrigation Headworks and Main Irrigation Systems Improvement Program supports the rehabilitation, upgrading or replacement of existing irrigation headworks and delivery systems and the development of new water storage and delivery systems. Investment in 1987/88 was $47 million.

The principal objective of the Land Reclamation Program is to reclaim land not governed at the time of disturbance by the Land Surface Conservation and Reclamation Act. These disturbances are a result of man-made activities. Work under this project has focused primarily on restoring abandoned garbage dumps, sewage lagoons, gravel pits and mine sites throughout Alberta. In 1987/88, 96 projects were undertaken at a cost of $2 million.

The Minister is also responsible for Paddle River Basin Development and the Lesser Slave Lake Outlet.

Questions were asked of the Minister by Standing Committee members on the following subjects: number of research project applications received by the Occupational Health and Safety Heritage Grant Program and process for selection; need to fund Heritage Grant Program from Heritage Fund rather than General Revenue; research project about alcohol and drug abuse as it relates to safety in the workplace; safety in the oil fields; proposed study on illness caused by office environments; federal funding of irrigation headworks and main irrigation systems; purpose of Oldman River Dam; emissions from old refinery sites; reclamation of privately-owned land; reclamation of used oil; transfer of knowledge from researchers to the private sector; cost of establishing on-site mixing plant at the Pinepound Coulee Project; completion date of Pinepound siphon; and specific groundwater studies relating to Hub Oil plant.

Auditor General - October 18, 1988

On Tuesday, October 18, 1988, the Auditor General for the Province of Alberta, Mr. Donald Salmon, appeared before the Standing Committee. He was accompanied by Mr. Ken Smith, Assistant Auditor General and Mr. Jim Hug, Audit Principal.

The Auditor General audits the financial statements prepared by the Provincial Treasurer.

Mr. Salmon gave an opening statement about the financial statements of the Heritage Fund.

Standing Committee members questioned Mr. Salmon on the following topics: tracking of Heritage Fund investments; steps to maintain purchasing power of Heritage Fund at its 1987 level; effect of underlying market value of Heritage Fund securities on Alberta's credit rating; method of reporting deemed assets of Heritage Fund; rate of return to Heritage Fund on deposit notes, certificates and acceptances; detail in schedules on rate of interest on investments; rate of return on small vs. long-term investments; losses by Heritage Fund in October 1987 stock market crash; Alberta Mortgage and Housing Corporation; Alberta Agricultural Development Corporation; Millar Western Pulp Ltd. loan agreement and debentures; valuation of Canada Investment Division; ownership of hopper cars; and audits of provincially-owned organizations receiving Heritage Fund money.

Provincial Treasurer - October 19, 1988

Hon. Dick Johnston appeared before the Standing Committee on Wednesday, October 19, 1988. With Hon. Mr. Johnston was Mr. Allister McPherson, Deputy Provincial Treasurer.

As of March 31, 1988, the assets of the Heritage Fund were composed of the following investments:

	($ billion)
Alberta Investment Division	7.520
Capital Projects Division	0.200
Canada Investment Division	1.470
Deposits and Marketable Securities	2.798
Accrued Interest and Receivables	0.130
Commercial Investment Division	0.263
Energy Investment Division	0.001
Deemed Assets	2.758

In the Annual Report, Hon. Mr. Johnston identified the following as highlights of the 1987/88 fiscal year:

> Financial assets of $12.6 billion earned net income of $1,353 million in 1987/88. This income was transferred to the General Revenue Fund to reduce the deficit and maintain high quality services and programs.
>
> Investments totalling $401 million were made in Millar Western Pulp Ltd., NOVA Corporation of Alberta and the Small Business Term Assistance Plan.
>
> Financing of $244 million was provided to the Alberta Agricultural Development Corporation, the Alberta Opportunity Company and the Alberta Mortgage and Housing Corporation.
>
> In April 1988 an additional investment of $30 million of Alberta Energy Company common shares was made.
>
> By year end, $2.8 billion was invested in cash and marketable securities.
>
> The Capital Projects Division generated jobs and is helping to improve the quality of life for Albertans through investment of over $129 million in water management, research, recreational developments and other projects.

The Standing Committee discussed a variety of issues with the Treasurer, including: Millar Western Pulp Ltd. loan; public review of policy and directions; adequacy of communications network in place for Heritage Fund; effect of Canada-U.S. Free Trade Agreement on Heritage Fund; asset value of investment in Crown corporations; diversification of Alberta's economy; Lloydminster Bi-Provincial Upgrader; return on investments; market value of Heritage Fund loans to Crown corporations; when Heritage Fund might begin to grow again; maintenance of value of Heritage Fund; funding to small business sector; reporting of deemed assets; and possibility of liquidating part of the Heritage Fund to meet short and long-term borrowing needs.

Minister of Municipal Affairs (Alberta Mortgage and Housing Corporation) - October 19, 1988

On Wednesday, October 19, 1988, the Hon. Dennis Anderson, Minister of Municipal Affairs, appeared before the Standing Committee. The Minister was joined by: Mr. Archie Grover, Deputy Minister of Municipal Affairs; Mr. Joe Engelman, President, Alberta Mortgage and Housing Corporation (AMHC); and Mr. Stephen Kent, Controller, Finance and Administration, AMHC.

The Department of Municipal Affairs is responsible for the AMHC. The AMHC builds senior citizen and low-income homes, and provides loans for ownership and rental. Total investment in 1987/88 was $155 million.

Hon. Mr. Anderson reported that the AMHC owed the Heritage Trust Fund $3.3 billion, but added that foreclosures were down 35 percent in 1987/88 over the previous year, that houses were selling quickly and that most units not sold were almost entirely rented.

Standing Committee members questioned the Minister on the following topics: the future of the AMHC; marketing homes foreclosed on by AMHC; possible effects of a future economic collapse on AMHC; subsidizing of AMHC by General Revenue Fund; AMHC inventory of single-family vs. multiple-unit housing; benefits of federal housing programs; operations of rural and native housing programs; funding of senior citizens' self-contained suites; rent-to-own option on foreclosed units being rented; and possibility of profit-sharing with housing authorities.

Alberta Heritage Foundation for Medical Research - October 20, 1988

Dr. Lionel McLeod, President of the Alberta Heritage Foundation for Medical Research, appeared before the Standing Committee on Thursday, October 20, 1988. Dr. McLeod was accompanied by Mr. Eric Geddes, Chairman of the Alberta Heritage Foundation for Medical Research.

Dr. McLeod and Mr. Geddes opened by presenting an overview of the progress of the Alberta Heritage Foundation for Medical Research in the previous year. He reported that the Heritage Medical Research Building in Calgary had opened in the last year, and the heritage medical research building at the University of Alberta was scheduled to open November 9, 1988. For the year ended March 31, 1988, the Foundation spent $51 million, of which $49.7 million went to scientific programs. Investment at March 31, 1988 was $300 million.

Dr. McLeod and Mr. Geddes then responded to questions on the following subjects: maintaining integrity of the endowment fund while removing increased amounts from it; possibility of matching funds from pharmaceutical companies; disposal of surplus funds; financial return from patents; publicity; recruitment and solicitation of research scientists; co-ordinating research; collaboration with Atlanta disease control centre; research on mental illness; and research on amyotrophic lateral sclerosis.

Minister of Energy - October 20, 1988

On October 20, 1988, Hon. Neil Webber, Minister of Energy, appeared before the Standing Committee. With Hon. Dr. Webber was Mr. Bill Yurko, Chairman and Chief Executive Officer of the Alberta Oil Sands Technology and Research Authority (AOSTRA).

The Minister is responsible for AOSTRA, which falls under the Capital Projects Division, and the Alberta Energy Corporation (AEC), and Syncrude in the Alberta Investment Division.

AOSTRA assists in developing technology to recover and process oil from oil sands and heavy oil deposits and to increase production from conventional reserves. AOSTRA's co-operative program brings together academic, industry, and Government activities and resources for the development of technology for resource exploration. This close association has led to the successful transfer of technology to industry and immediate commercial applications in many cases. Investment in 1987/88 was $21 million.

The AEC was established to encourage Albertans and other Canadians to participate in the development of energy and other natural resources. The majority of AEC's 51,000 shareholders are Albertans. The company's activities include oil and gas exploration and development, and investments in Syncrude, pipelines, forest products, steel and coal. Investment in 1987/88 was $5.8 million.

An addition to the Syncrude Project near Fort McMurray was under construction in 1987/88 and scheduled for completion in 1988. Investment at March 31, 1988 was $509 million.

Standing Committee members asked questions of the Minister on the following subjects: financing, reasons for developing and reasons for maintaining interest in Other Six Leases Organization (OSLO) project; economic impact of Lloydminster Bi-Provincial Upgrader; relationship of recent energy projects to Canada's future security of supply; marketing of patents by AOSTRA; structure of funding received by AOSTRA; sale of technology by AOSTRA; future priorities and possible expansion of AOSTRA's role; opportunities offered to graduate students by AOSTRA; coal activity in Alberta, effects of the Free Trade Agreement on Alberta's energy industry; possibility of assistance to the conventional oil and gas industry; background on investment in Luscar Ltd.; priority of the Wabasca oil sand deposit; and construction of a road to the Underground Test Facility.

Premier - October 21, 1988

Hon. Don Getty, Premier, appeared before the Standing Committee on the morning of October 21, 1988.

The members of the Standing Committee questioned the Premier on the following subjects: long-term objectives of Heritage Fund; value of Heritage Fund-sponsored research; diversification of the provincial economy; individual telephone line service program; effect of the Free Trade Agreement on price of oil in the United States and on investments of Heritage Fund; Alberta's relative share of federal funding; reasons for creation of Alberta Energy Company; reporting and value of deemed assets; pollution-free technology in pulp and paper mill projects; tourism in northern Alberta; Lloydminster Bi-Provincial Upgrader; maintaining value of the Heritage Fund; and effect of inflation on Heritage Fund.

Tour of Prince Rupert Grain Terminal/Port of Vancouver - October 24 - 25, 1988

From Sunday, October 23 to Tuesday, October 25, the members toured the Prince Rupert Grain Terminal and the Port of Vancouver.

VI. RECOMMENDATIONS OF THE STANDING COMMITTEE ON THE ALBERTA HERITAGE SAVINGS TRUST FUND

A most important function of the Standing Committee is the formulation of recommendations concerning the investment of Alberta Heritage Savings Trust Fund money. Several meetings centred on this responsibility.

Proposals for recommendations were submitted by individual Standing Committee members for consideration by the Standing Committee as a whole. The proposals were moved, debated, and voted on. Forty-four proposals were moved and, after careful consideration and deliberation, the Standing Committee approved the following eleven recommendations for inclusion in this report. The Hansard transcript of the Standing Committee's proceedings on February 15, 1989, contain the recommendations brought forward and the Chairman's determination of the vote with respect to each recommendation.

RECOMMENDATIONS

The Standing Committee on the Alberta Heritage Savings Trust Fund Act recommends as follows:

1. That the feasibility of establishing a second tree nursery in northern Alberta be ascertained in order to meet the need for replacing our forests in an effective and prompt manner.

2. Given the Alberta Heritage Savings Trust Fund's commitment to bettering the quality of life for all Albertans, that the Standing Committee endorse the development of an urban parks program for Alberta towns and villages in order to provide continuing recreation and leisure opportunities as well as environmental protection and beautification. Existing and qualifying Municipal Recreation Tourism Areas could be targeted for further development with supplementary funds from this program.

3. That the Standing Committee endorse a plan to provide incentives to encourage private sector companies involved in heavy oil activities to reclaim and clean up sites with technology available through AOSTRA projects.

4. That the Provincial Treasurer make public the quarterly reports of the Alberta Heritage Savings Trust Fund within two months of the end of the quarter.

5. That strenuous efforts be made to obtain a formal refusal of federal funds and support available for a given capital project, prior to commitment of Alberta Heritage Savings Trust Fund resources to that capital project.

6. That a study be done under the Occupational Health Research and Safety Heritage Grant Program to analyze the effects of re-cycled air in "air tight" office space on employees with a view to reducing incidents of influenza, etc.

7. That a study be done under the Occupational Health Research and Safety Heritage Grant Program on the use of alcohol and drugs (including prescription drugs) in the workplace and the effects they have on safety, absenteeism and productivity in Alberta.

8. That, as the Alberta Heritage Savings Trust Fund has now been in existence for 12 years, the Government of Alberta consult with business, labour and the general public as to the goals and objectives of the Fund for the next 10 years.

9. That an investigation be done into the feasibility of selling the shares held through Alberta Oil Sands Equity in Syncrude, and that the proceeds from the sale be used in the future to fund the capital required in the upgrader at Lloydminster and the OSLO project.

10. That a continuation be sought of the Municipal Recreation Tourism Area Grant Program by infusion of more dollars from the Alberta Heritage Savings Trust Fund. As well, consideration should be given to allocating additional funds on top of programs already developed.

11. That continuing emphasis be placed on Alberta Heritage Savings Trust Fund investments that yield monetary return, until such time as the budget is balanced and the accumulated debt is erased.

VII. PROVINCIAL TREASURER'S RESPONSES TO THE RECOMMENDATIONS CONTAINED IN THE REPORT OF THE 1987 STANDING COMMITTEE ON THE ALBERTA HERITAGE SAVINGS TRUST FUND ACT

1. Capital Projects

That a "hold" be put on further new capital projects until such time that oil royalty revenue is again flowing into the Fund.

The rate of expenditure on Capital Projects Division (CPD) initiatives and the approval of new projects have been curtailed significantly in accordance with Alberta's fiscal position and current infrastructure requirements. Capital Projects Division Estimates total $164 million in 1988-89 on 13 projects (12 existing and one new one). The need for any new projects will be monitored closely.

2. Alberta Heritage Foundation for Medical Research

That as section 24(5) of the Alberta Heritage Foundation for Medical Research Act requires a review of the endowment fund as to its adequacy of future requirements of the Foundation once the triennial report has been filed, the review be proceeded with as soon as possible.

The recommendation of the Select Standing Committee of the Alberta Heritage Savings Trust Fund has been reviewed as have the recommendations contained in The Second Triennial Report. If additional funds should become available, an increase in the endowment to the Alberta Heritage Foundation for Medical Research may be considered at that time. The Minister for Technology, Research & Telecommunications is continuing to review this item with the Foundation.

3. Review of Goals and Objectives

That as the Alberta Heritage Savings Trust Fund has now been in existence for 11 years, the Government of Alberta consult with business, labour, and the general public as to the goals and objectives of the Fund for the next 10 years.

The Government of Alberta is continuing to review the future role of the Heritage Fund and in particular the ways in which the Fund can best be used to serve the needs of Albertans. An important part of this review process is the input and advice of Albertans. It may be appropriate to seek public input through forums, meetings with specific interest groups and MLAs.

4. Urban Parks Program

That when funding is available, the Government consider an ongoing Urban Parks program to include villages and towns in a scaled down version of the previous Urban Parks program.

Expansion of the Urban Parks program was announced in the Throne Speech with the commitment to build an additional nine parks in Alberta cities as well as increased funding for the Urban Parks in Edmonton and Calgary. As well, the Municipal Recreation/Tourism

Areas received a $2.3 million increase in funding commitments ($2 million in 1989-90, $300,000 in 1990-91) to meet unanticipated demand for parks in villages and towns. A total of $5 million has been allocated in the 1989-90 Capital Projects Division Estimates for these two projects.

5. **Informational Films**

That the Public Affairs Bureau be encouraged to consider developing a series of informational films and/or videotapes on the Alberta Heritage Savings Trust Fund. These film kits will be available at many outlets to complement the informational pamphlets now available at many locations in Alberta.

This recommendation is currently under review in the context of the government's overall communication strategy with respect to the Heritage Fund. However, final decisions on the next phase of the Heritage Fund communications program have not yet been made.

6. **Commercial Investment Division**

That the equity position of the Commercial Investment Division be increased by purchasing more common stocks in Canadian corporations.

The Heritage Fund's investment strategy is currently under review and this recommendation will be considered seriously within the context of the Fund's role in the province's fiscal strategies.

7. **Water Control and Preservation Program**

That the Minister of the Environment consider a water control and preservation program for the Sturgeon River, thereby enhancing the quality and water levels of several Alberta recreational lakes.

This project should be considered as an appropriate expenditure of the Capital Projects Division, if, as, and when funding is available. This project will endeavour to enhance the tourism potential, farming, lake quality, and water control.

The Sturgeon River basin has been subjected to extensive water management planning and analysis over the past 14 years. The key findings of the Sturgeon River Basin Study report (1977) and subsequent project feasibility analyses are:

a) Existing outlet controls at Isle Lake and Lac Ste. Anne should not be changed. Water level stabilization capability is technically limited for both lakes. Increased outflow capacity would amplify existing identified downstream flood problems.

b) Isle Lake and Lac Ste. Anne have high concentrations of plant growth and there is no feasible way to improve water quality.

c) Big Lake serves a major flood attenuation function immediately upstream of the City of St. Albert. The Edmonton Metropolitan Regional Planning Commission is currently developing a shoreland management plan for Big Lake and Alberta Environment is involved to ensure that lake compartmentalization works being proposed by Ducks

Unlimited and the Wetlands for Tomorrow program would not diminish the natural flood storage characteristics of Big Lake.

d) There is no feasible technical solution, via upstream storage development of channelization, to control agricultural flooding along the Sturgeon River system.

e) Revegetation of cleared river banks would enhance water based wildlife habitat and reduce sediment load to the Sturgeon River.

f) A 1988 assessment of the recreation/tourism capability of the Sturgeon River system between Isle Lake and St. Albert prompted by a local proposal, concluded that the system does not have potential to sustain improved water based recreation and tourism.

Significant hydrotechnical, biophysical and recreation analysis would be required to identify specific water management projects in the Sturgeon River System.

8. **Capital Projects Division**

That section 6(2)(b) of the Alberta Heritage Savings Trust Fund Act (RSA 1980, CA-27) be amended to allow the Capital Projects Division to constitute up to 22 percent of the Fund's assets.

The Alberta Heritage Savings Trust Fund Act was amended in July, 1988 to increase the limit on the Capital Projects Division from 20 percent to 25 percent. The increase will allow for the completion of currently approved projects.

9. **Commercial Investment Division**

That the detailed listing of individual investments under Schedule Five - Commercial Investment Division for each of the four most recent quarterly reports be made available to the members of the Standing Committee on the Alberta Heritage Savings Trust Fund Act and, further, that this information be made available prior to the appearance of the Auditor General or the Provincial Treasurer.

The investment philosophy adopted for this Division is that of a passive fund. The idea is to hold a widely diversified portfolio of stocks reflecting the overall structure of the Canadian Stock Market and the composition of the Canadian economy. Under this approach, concentration of individual positions and stock selection is not an issue - rather the performance of the overall portfolio. As such, the information requested would provide little assistance in evaluating how well the portfolio is meeting its mandate.

10. **Alberta Heritage Scholarship Fund**

That the Standing Committee recommend to the Board of Trustees of the Alberta Heritage Scholarship Fund the establishment of a new category of scholarships to reward the outstanding achievements of postsecondary students in the area of fine arts, and that the number of scholarships awarded each year be limited and awarded on a competition basis.

The government is not prepared to recommend implementation of this recommendation. Existing programs consider all areas of endeavor and study on an equitable basis and students in the arts are well represented at both the undergraduate and graduate levels.

Any enrichments or additions to the existing program will reduce the future earning potential of the Scholarship Fund and could force cut-backs in scholarships in the future. The maximum amount of money paid in scholarships, awards of distinction and prizes annually was increased from $9,250,000 to $10,230,000 in October, 1987, to accommodate existing scholarships.

11. **Commercial Investment Division**

That the Standing Committee recommend to the Heritage Savings Trust Fund Investment Committee they expand the Commercial Investment Division of the Fund to include international investments as recommended by the Provincial Treasurer. It is also recommended that the size of the Commercial Investment Division be increased to allow for this additional investment and income opportunity to the Fund.

The Heritage Fund's investment strategy is currently under review and this recommendation will be considered seriously within the context of the Fund's role in the Province's fiscal strategies. At present, the Commercial Investment Division is allowed to grow in accordance with its earnings.

12. **Loans and Debentures of Crown Corporations**

That all loans to Crown corporations be reviewed in order to ensure that the income of the Alberta Heritage Savings Trust Fund is not overstated, and the Crown corporations be allowed to redeem high-interest debentures purchased from the Fund.

The debentures of Crown corporations purchased by the Heritage Fund carry marketing rates of interest as applicable at the time of issue. In general, the interest rate on Crown corporation debentures are reviewed every five years. As such, few debentures issued during the period of high interest rates still carry such rates. The average rate on Crown corporation debentures is currently 11.4 percent. Debentures may be redeemed in whole or in part without penalty with the approval of the Provincial Treasurer, and this feature has been utilized in appropriate situations, e.g., when loans made by a Crown corporation have been repaid in advance by borrowers.

13. **Commercial Investment Division**

That the Commercial Investment Division ceiling on maximum investment be increased to 10 percent of the Alberta Heritage Savings Trust Fund.

The Heritage Fund's investment strategy is currently under review and this recommendation will be considered seriously within the context of the Fund's role in the province's fiscal strategies.

14. **Commercial Investment Division**

That up to 25% of the Commercial Investment Division of the Alberta Heritage Savings Trust Fund be invested in foreign equities and bonds.

The Heritage Fund's investment strategy is currently under review and this recommendation will be considered seriously within the context of the Fund's role in the province's fiscal strategies.

15. **Intergovernmental Secretariat Report on Western Coal**

That the Capital Projects Division support investment to implement the Intergovernmental Secretariat Report on Western Coal to support research and development and other initiatives to reduce the cost of transporting coal and thus improve markets for Alberta coal in Ontario and offshore markets.

Although the government supports the recommendations of the Intergovernmental Secretariat Report on Western Coal, the Capital Projects Division is not the appropriate funding mechanism for this work. The Department of Energy's Coal Research and Technology program provides funding for projects designed to enhance the competitiveness of Alberta coal.

The Western Diversification Office has earmarked $27 million to promote the attractiveness of western coal in Ontario. Coincident with this announcement was the Premier's commitment to provide provincial funding (up to $16 million over four years) for this purpose.

16. **Solar/wind Energy**

That the provincial Government renew and fulfill its commitment to solar/wind energy research as approved by the Legislature in the 1986-87 Estimates of Proposed Investments for the Capital Projects Division.

The government has maintained its commitment toward solar/wind energy research and development in the southwest region of Alberta with the estimate of $500,000 in 1989-90 under the Capital Projects Division.

17. **Alberta Mortgage and Housing Corporation**

That the Standing Committee request the Minister responsible for the Alberta Mortgage and Housing Corporation undertake a complete and thorough examination of the Alberta Mortgage and Housing Corporation. It is recommended that this examination would be made by an independent committee comprised of three MLAs, one as chairman, and four citizens from the community at large.

The Government of Alberta is reviewing the future of the Alberta Mortgage and Housing Corporation. The Board of Directors of the Alberta Mortgage and Housing Corporation has requested the Corporation to undertake review of some of its housing and mortgage lending programs. A Committee of Board members is directly involved in some aspects of this review. The government will take into consideration whether it may be appropriate to hold an external, independent review of the Corporation.

VIII. SCHEDULE OF STANDING COMMITTEE MEETINGS, 1988-89

Meeting Date	Appearance/Topic
September 7 - 9, 1988	Tour of Irrigation Districts
September 12 - 13, 1988	Tour of Tarsands
September 20 - 21, 1988	Tour of Kananaskis Country
September 25, 1988	Organizational Meeting
September 28, 1988	Hon. Norm Weiss Minister of Recreation and Parks
September 29, 1988	Hon. Dave Russell Minister of Advanced Education
September 29, 1988	Hon. LeRoy Fjordbotten Minister of Forestry, Lands and Wildlife
October 3, 1988	Hon. Les Young Minister of Technology, Research and Telecommunications
October 3, 1988	Hon. Nancy Betkowski Minister of Health
October 4, 1988	Hon. Shirley Cripps Associate Minister of Agriculture
October 5, 1988	Hon. Larry Shaben Minister of Economic Development and Trade
October 6, 1988	Tour of Pine Ridge Forest Nursery
October 12, 1988	Hon. Peter Elzinga Minister of Agriculture
October 17, 1988	Hon. Ian Reid Minister of the Environment (Occupational Health and Safety)

October 18, 1988	Mr. Donald Salmon Auditor General
October 19, 1988	Hon. Dick Johnston Provincial Treasurer
October 19, 1988	Hon. Dennis Anderson Minister of Municipal Affairs (Alberta Mortgage and Housing Corporation)
October 20, 1988	Alberta Heritage Foundation For Medical Research
October 21, 1988	Hon. Don Getty Premier
October 24 - 25, 1988	Tour of Prince Rupert Grain Terminal and Port of Vancouver
November 2, 1988	Discussion of Recommendations
November 7, 1988	Discussion of Recommendations
November 8, 1988	Discussion of Recommendations
January 15, 1989	Voting on Recommendations

Appendix I

Asset Level of the Alberta Heritage Savings Trust Fund 1976-77 to 1987-88

Fiscal Year	Assets ($ billion)
1976-77	$ 2.218
1977-78	$ 3.374
1978-79	$ 4.705
1979-80	$ 6.419
1980-81	$ 8.579
1981-82	$11.009
1982-83	$13.002
1983-84	$13.711
1984-85	$14.436
1985-86	$15.118
1986-87	$15.375
1987-88	$15.320